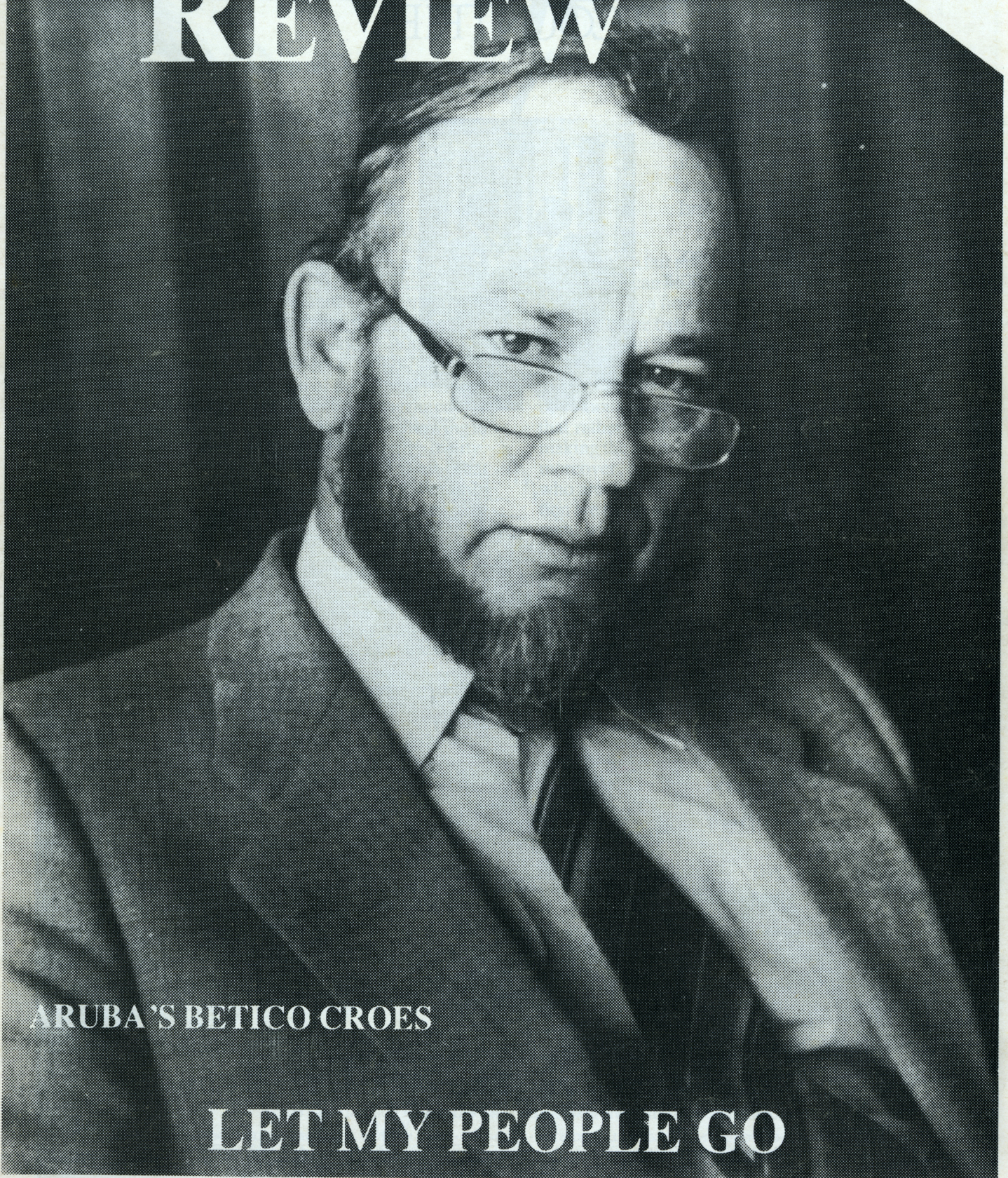


March 1, 1985

Antigua

ANTILLEN REVIEW

SYNOPSIS
OF
A BLEAK SITUATION



ARUBA'S BETICO CROES

LET MY PEOPLE GO

THE MORNING AFTER LAGO

A NEED TO SOBER UP BUT NOT TO DESPAIR

BYE, BYE, Exxon, hello hardship. The song may sound grim but is nonetheless true. Having the main pillar knocked out from under its economy, Aruba faces a host of financial and social problems arising from the inevitable loss of income and the just as inevitable steep rise in unemployment. There is no escaping the truth that Lago's closure implies difficult and hard years ahead. A reality most if not all Arubans are by now keenly aware of.

Discussing the island's plight with a number of its businessmen AR was told, however, that there is no need for despair. On the contrary, if they are right, Aruba's lean years may well number considerably less than the biblically prescribed figure of seven. Assuming that certain conditions will be met, the group AR sat down with was of the opinion that the island's economy might be back in calm waters within five years.

As some of these conditions can be taken care of by the Arubans themselves, their expectations may be proven right. Adapting the island's budget to the declining level of income and at the same time maintaining an atmosphere conducive to tourism are the immediate responsibility of Aruba's politicians and trade-unions. They have in fact little choice in this respect. Restoring or maintaining outside confidence in the island's viability, however, is a different matter. Rebuilding the economy will require substantial investments in particular in the tourism sector. By implication a long-term investment friendly climate must be maintained. For this the Arubans will have to introduce some new government ordinances and will also need the assistance of Holland and in some measure of the other Antillean islands. Aruba, AR was told, should be assured of its place in the Kingdom of the Netherlands for at least another 25 years. The linkage of independence in 1996 to next year's status aparte therefore should be undone.

Such a step, it was maintained, would not only make the island more attractive to foreign investors, but would also give recognition to the wishes of almost the entire Aruban population.

Investment

Tourism, it appears, offers Aruba the best chance of overcoming the blow it was

dealt by the departure of Exxon. The quality of its product is by now well known and highly appreciated. Yet its share of all Caribbean bound tourism is still very modest, a mere 3%. An exceptionally



Tourism: only mainstay

high all the year round occupancy rate during the past decade kept the industry for all practical reasons from launching out further. The growth possibilities therefore should be considerable. Pre-

sently 71% of Aruba's tourism originates from the USA with a high concentration in the New York area. This leaves a large segment of the American market unexplored. The experts AR talked to have no doubt at all that the market potential allows for at least a 100% growth of the industry. An additional 2,500 rooms or doubling the present capacity would take care of both the unemployment and loss of foreign exchange income caused by the refinery's closure, they said.

The investment needed for both upgrading the product and increasing the capacity to the envisaged level will require a total investment of at least Naf.500 million. With a view to Aruba's potential for further development in this respect, this should not be considered an excessively high amount. Investors in this sector, however, consider the Caribbean in general as a high risk area. The larger hotel organizations, for example, prefer to offer their expertise in the form of management contracts rather than in real estate and construction. For the same reason banks are reluctant to provide large loans. This applies in particular to Aruba as there is a widespread unfamiliarity with the concept of status aparte. The linkage to independence in 1996 is no doubt the most scary element as far as potential investors are concerned.

For that reason many Aruban businessmen feel that the 1996 provision, to which Aruba only agreed in order to obtain its long coveted direct links to The Hague, should be eliminated from the Round Table agreement. In addition they hope that Holland will be willing to provide substantial loans and guarantees. If so banks and foreign investment may step in more easily. To promote a better investment climate some drastic changes in the local government's attitude and regulations are necessary as well. The authorities, AR was told, still regard private enterprise with a certain measure of suspi-

cion. This far from helpful and rather outdated attitude too often causes unnecessary delays in the handling of applications to start a new enterprise on the island. Some laws and regulations too seem to hinder rather than promote attracting new investment. The infamous dismissal law is a point in question. But also the long and often tedious procedure of acquiring workpermits for foreign employees even where the required expertise is not available on the island, does not exactly help. The suggestion made by one Aruban businessman that a person or company investing in a new enterprise should have an automatic right to employ a minimum of 5% of its employees from abroad, seems worth considering. A measure of that kind would certainly create a more attractive climate.

Government

The most critical pre-condition for rebuilding the island's economy concerns the Aruban government itself. The closure of Lago implies such a loss of income that a severe cutting of costs has become both urgent and unavoidable. This will be no easy matter. Revenues from the oil industry have been more than generous during the past years. Instead of reserving at least part of this windfall the government went on a spending spree. For motives of political patronage the civil services were overstaffed while salaries - particularly in the lower and middle echelons - rose to a level 30-40% higher than in the private sector. Secondary labour conditions too are much better. The implication is that the government will have to cut wages considerably and lay-off a substantial number of people.

The businessmen AR talked to were of the opinion that these measures will be taken for the simple reason that the government has no other option. They expect and even hope that Holland in the case it is willing to come to the rescue of Aruba will do so on very strict conditions in this respect. This, they argued, would make it easier for the Aruban politicians to act in accordance with the unpleasant facts. Whether this trimming down of the government will also lead to better management and higher production of the civil services, was seen as a very open question. The prevailing system of patronage for the sake of securing votes is generally seen as an unsurmountable obstacle to such a development.

This rather negative judgement on the government's role with regard to the island's economy in general does not hold much promise for the future. Analyzing the past developments, everyone AR talked to agreed that the government should and in fact could have foreseen the closure of Lago. Although warned both by Lago and outside experts on many occasions during the past 9 years that developments might jeopardize the refinery's existence no measures whatsoever were at any time taken. Short-time political goals were considered more important. One of the underlying reasons for Aruba's present crisis is no doubt the fact that everything on the island, including the economy, has been dominated by politics for at least a decade. Politics, it should be realized, of a very narrow minded and petty character. As few expect this to change in the foreseeable future, most members of the business community hope for government to be heavily reduced in every aspect as a result of the crisis.

Democracy

Suggestions that the ill functioning of democracy on Aruba might jeopardize its chances of acquiring sufficient aid from Holland, were not shared by those AR interviewed. Most people did, however, agree that serious flaws exist. In particular the role of Mr. Betico Croes, leader of the island's largest party, was seen as undermining the democratic system. Mr. Croes holds the position of adviser to the island government. A position which is not accounted for in the regulations for island-governments in the Netherlands Antilles. Even though in fact he is running the island he cannot be called upon by the island's parliament to give account of his policies. Although formally not unconstitutional this practice does not exactly serve the democratic cause.

In this connection it was pointed out that the Antilles because of their closeness to the American continent are well acquainted with the presidential model. This may explain Aruba's easy acceptance of Mr. Croes' position. Another explanation for his rather roundabout way of being involved in governing the island may be that he is a very skillful politician but not a very good administrator. For that same reason it is doubted by some that he will indeed agree to be Aruba's first prime-minister when status aparte has

been realized, although he has hinted in that direction on several occasions.

A more serious threat to the democratic system, it was felt, is the rather bad shape of administrative affairs in general. Although the island government budgets have been introduced on time the backlog in financial accounting has made it impossible for the island parliament to exercise its controlling function properly. A development which is not exactly appreciated by the Dutch Government. Nevertheless few were of the opinion that this would prompt the Dutch to withhold the aid needed to overcome the impending crisis.

Status aparte

Discussing the economic implications of the upcoming status aparte, it was generally felt that Aruba will in the end be better off by going it alone. This in sharp contrast with a recent IMF report, which suggests that a broad economic basis i.e. a staying together of the six Antillean islands, would be preferable. But in Aruba's business circles, many are convinced that leaving the Antillean constellation is economically speaking the wiser choice. Most of them are very pessimistic about Curaçao's future viability and fear that Aruba would suffer further economic decline when staying in the Antilles. For this reason it was argued that status aparte should be enacted if by any means possible on the agreed date of January 1, 1986. All the energy now devoted to prepare for that status, can then be used for building up the economy. Business circles in Aruba are convinced that after status aparte is a fact, Curaçao and Aruba will develop ways and means to co-operate to mutual benefit of the islands.

Once more the conversation turned to the status aparte — independence package. There was general agreement that adhering to the 1996 date would be tolling the bell for the island. How far, on the other hand, the Arubans have removed themselves from thinking in terms of a united Antilles was made clear when one participant suggested that "each island should get the option for status aparte and from that point decide about future affiliations either with the other islands, Holland or a neighbouring country. However business people in Aruba are convinced that each island should remain in the Kingdom of the Netherlands for at least another 25 years. This is an option that

should be open to each island individually”.

The above expressed confidence in the long-term viability of the island, is not the mood one finds in Aruba's streets. People feel highly insecure, which is caused both by anxiety about the economic developments of the moment and a lack of trust in the ability of the politicians to reverse Aruba's downward trend. It should be observed that this applies to the ruling politicians as well as to the opposition. In accordance it is estimated that ten to fifteen thousand Arubans will leave the island. Pensioners are expected to take up residence in Costa Rica, Spain or Holland. Many others may join their relations already living in the Netherlands.

Rumors of a substantial capital flight were not confirmed. Although a 20% emigration will inevitably cause some brain-drain, the Arubans interviewed do not expect this to be of too damaging a nature. Nor do they expect the feelings of anxiety to lead to eruptions of serious social unrest. There is, AR was assured, no organized leftish movement on the island, which might try to take advantage of the

present crisis.

Adding it all up the most negative picture evolving - assuming the unlikely situation that nothing is done to foster strong economic growth - is that of continued and even accelerating decline. If no investments of a significant nature can be attracted more and more people will start to leave. With the outflow of know-how the quality of the tourism product will suffer, causing a decline in the number of visitors. This in turn will result in the closure of more shops and businesses. Government income will go down because of lower tax yields affecting the total quality of society. After five years the population might be down to 30,000 (from 60,000) living on an average income close to the present minimum wage level, while the cost of living will have increased considerably.

This may be the most negative scenario, it is also the most unlikely. Aruba's potential for tourism is of such a nature that one can hardly imagine investors to pass up the opportunities offered. The exceptionally positive attitude towards tourism among Arubans, coupled to the inevitable lowering of the wage level and of

real estate prices, should make investing an interesting option. More so, if Holland would agree to come to the island's rescue in the sense as indicated above. The most positive scenario for Aruba therefore looks something like the following:

The reputation of political stability restored by Holland's agreement to postpone all talk about independence for at least two decades. As a result a considerable inflow of capital for the purpose of increasing the island's capacity for tourism. A consequent decline of unemployment not only because of new construction activities and more jobs being created by the tourism industry, but also because tourism related businesses will increase. In the wake of this development it may be expected that free-zone activities will also pick up. The government will decrease in size, but most people laid off will find employment in the private sector. The expected emigration of 15,000 Arubans will further help to alleviate the unemployment problem. After five years unemployment can be back at the appr. 10% level of the past while the income might also be somewhere near the 1984 level again. ■

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